

Abstract of the Disclosure

A method and computer apparatus determines the value of a derivative by introducing risk premiums. The method includes determining the underlying security and derivative,
5 determining the risks and trading costs associated with the derivative, formulating the RAP equation for the derivative, solving the RAP equation for the derivative and outputting a value of the derivative based on the solution of the RAP equation. The computer apparatus employs this method in a financial analysis application. The system includes an input unit for taking inputs of derivative characteristics and model parameters, a processing unit for computing a value of the derivative based on the input characteristics and parameters using a risk-adjusted pricing equation, and an output unit for displaying the value of the derivative.